

HDFC Bank

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A thing of beauty is a joy forever!

- HDFCB reported stellar performance with a PAT of Rs50.1bn, up ~20.6% yoy, driven by ~24.1% yoy growth in advances, contributed equally by Retail and Corporate books; and stable margins of ~430bps, supported by the recent capital raised and rising yields.
- Slippages stood at Rs32.85bn (slippage ratio of ~1.78%) in the quarter, mainly contributed by SME/MSME and personal loan portfolios, while the bank's Agri portfolio witnessed an improvement. Management remains confident on further improvement in H2FY19.
- The bank's superior liquidity positioning (LCR of ~118% vs. 90% required) and PCR of ~117% (including buffer provisions) provide further comfort. The current NBFC/HFC exposure is of high quality, with ~85% of the debt having top-notch credit rating.
- The bank is best-positioned to gain market share momentum on both the credit and deposit sides, with best-in-class risk assessment and wide presence. We are keeping our estimates intact and maintain Buy, with a TP of Rs2470, corresponding to 4x FY20E Book.

- **Growth momentum on track – granularity in deposits to ensure no rush for high-cost deposits:** HDFCB's loan book grew ~24% yoy to Rs7508bn, with equal traction in retail and wholesale books. The bank expects business growth momentum to continue at a similar pace with the recent capital raising providing further cushion. In wholesale banking, the focus on business banking and emerging enterprises will continue. Management continues to see healthy traction in its other retail products like personal, auto and credit card loans. The bank continued to witness a sharp rise in deposits. Deposits grew ~21% yoy to Rs8334bn, driven by robust term deposit growth of ~22.8% yoy to Rs4837bn and CASA share at 42.0%. The bank maintains a healthy liquidity coverage ratio (LCR) of 118%, which will ensure that there is no need for aggressive growth in high-cost bulk deposits.
- **Margin improvement on capital raising – future trajectory comfortable:** HDFCB reported a sequential improvement in margins of 10bps to ~430bps (reported NIMs), primarily due to the capital raised by the bank in the previous quarter. The bank raised its MCLR over the last six months, which should ease yield pressure in the coming quarters. This, coupled with the granularity in overall deposit base, provides it further comfort on the margin front. We expect margins to remain in the range of ~4.1%-4.4% for FY19-20E.
- **Stable asset quality – no stress on NBFC/HFC portfolio:** HDFCB has experienced cyclical trends in its agriculture loan portfolio due to the volatile monsoon season and frequent farm loan waivers announced by various state governments. However, the current quarter was an exception, with the Agri portfolio performing better. Interestingly, management has reviewed its existing NBFC portfolio and believes that the portfolio is well-positioned, and it does not see an immediate concern on any exposure. Management highlighted that 85% of the lending is to high-rated NBFCs based on an internal risk assessment. Management has also confirmed that there is also no modification in the previously sanctioned loans to the sector.

Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net income	383,432	454,357	553,152	650,440	793,401
Net profit	122,962	145,496	174,867	209,299	254,042
EPS (Rs)	48.3	56.4	66.8	77.8	93.2
ABV (Rs)	280.1	339.8	396.4	530.9	595.3
RoA (%)	1.9	1.9	1.8	1.8	1.9
RoE (%)	18.3	17.9	17.9	16.6	16.2
PE (x)	40.8	34.9	29.5	25.3	21.1

Source: Company, Emkay Research

CMP	Target Price
Rs 1,970 as of (October 19, 2018)	Rs 2,470 (▼) 12 months
Rating	Upside
BUY (■)	25.4 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	-/-
Target Price change (%)	(1.2)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY19E	FY20E
Emkay	77.8	93.2
Consensus	79.9	97.8
Mean Consensus TP (12M)	Rs 2,437	

Stock Details

Bloomberg Code	HDFCB IN
Face Value (Rs)	2
Shares outstanding (mn)	2,717
52 Week H/L	2,220 / 1,685
M Cap (Rs bn/USD bn)	5,353 / 72.83
Daily Avg Volume (nos.)	2,961,841
Daily Avg Turnover (US\$ mn)	82.6

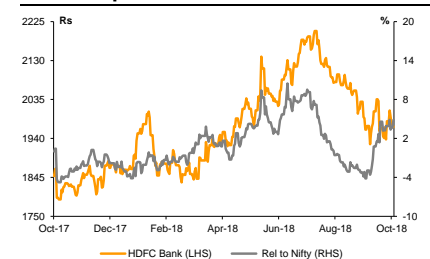
Shareholding Pattern Sep '18

Promoters	21.4%
FIIs	31.6%
DIIIs	12.3%
Public and Others	34.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	(10)	2	7
Rel. to Nifty	10	(4)	4	6

Relative price chart



Source: Bloomberg

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Exhibit 1: Actuals vs. Estimates

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	157,790	159,714	158,030	-1%	0%	In-line with estimates
PPOP	94,800	95,936	92,411	-1%	3%	In-line with estimates
PAT	50,057	51,818	51,950	-3%	-4%	Slightly higher provisions than expected

Source: Company, Emkay Research

Exhibit 2: Quarterly results summary

Rs (mn)	2QFY19	2QFY18	% change y-y	1QFY19	% change q-q	2QFY19E	Variance
Interest Earned	241,996	196,703	23.0	225,490	7.3	241,129	0.4
Interest Exp	124,362	99,182	25.4	117,354	6.0	121,887	2.0
Net Interest Income	117,634	97,521	20.6	108,136	8.8	119,243	(1.3)
NIM (as calculated)	4.62	4.75	(13bps)	4.59	3bps	4.73	(11bps)
Operating Exp	62,991	55,401	13.7	59,839	5.3	63,778	(1.2)
Non-interest Income	40,156	36,059	11.4	38,181	5.2	40,471	(0.8)
Pre Provisioning Profit	94,800	78,179	21.3	86,478	9.6	95,936	(1.2)
Provision & Contingencies	18,200	14,762	23.3	16,294	11.7	16,945	7.4
PBT	76,600	63,417	20.8	70,184	9.1	78,990	(3.0)
Income Tax Expense (Gain)	(26,543)	(21,907)	21.2	(24,169)	9.8	(27,173)	(2.3)
Net Profit/(Loss)	50,057	41,510	20.6	46,014	8.8	51,818	(3.4)
EPS (Rs)	18.5	15.9	16.4	17.5	1.0	19.3	(4.0)
Gross NPA (%)	1.3	1.3	7bps	1.3	-		
Net NPA (%)	0.4	0.4	(3bps)	0.4	(1bps)		
Deposits (Rs bn)	8,334	6,893	20.9	8,058	3.4	8,340	(0.1)
Net Advances (Rs bn)	7,508	6,049	24.1	7,086	6.0	7,512	(0.0)

Source: Company, Emkay Research

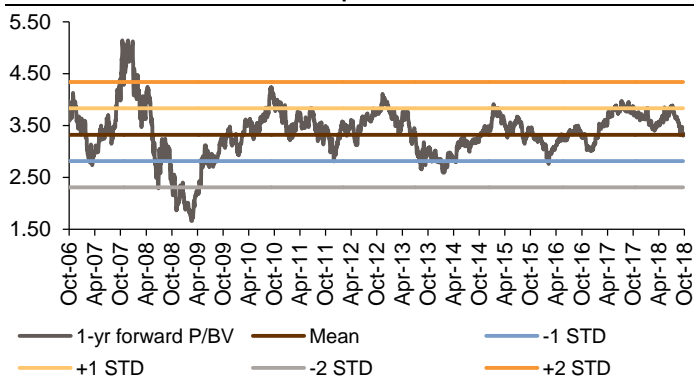
Valuation and view

We value the company on an SOTP basis assigning multiples to each key subsidiaries. We are keeping our FY19/FY20 estimates unchanged as the quarterly numbers are in line with our estimates. We maintain Buy, with a revised TP of Rs2470, corresponding to 4x FY20E Book.

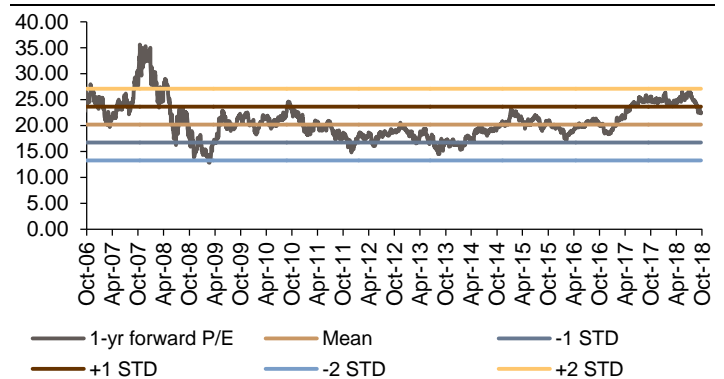
Exhibit 3: SOTP valuation-FY20E based (Rs)

Particulars	Stake (%)	Value (mn)	Rs. per share	Valuation methodology
HDFC Bank		6,496,829	2,383	3.9x of BV FY20E
HDB Financial	100%	186,067	68	3x of book value FY18
HDFC Securities	100%	51,663	19	15x of EPS FY18
Value of the bank		6,734,559	2,470	

Source: Company, Emkay Research

Exhibit 4: HDFC Bank P/BV multiples trades at mean value

Source: Company, Emkay Research

Exhibit 5: HDFC Bank P/E valuations trades near +1STD

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	275,915	331,392	400,949	476,722	589,065
Other income	107,517	122,965	152,203	173,719	204,336
Fee income	77,590	88,116	113,939	134,448	158,648
Net income	383,432	454,357	553,152	650,440	793,401
Operating expenses	169,797	197,033	226,904	263,505	321,587
Pre provision profit	213,635	257,324	326,248	386,935	471,814
PPP excl treasury	213,635	257,324	326,248	386,935	471,814
Provisions	27,256	35,933	59,275	67,882	84,555
Profit before tax	186,379	221,391	266,973	319,054	387,259
Tax	63,417	75,894	92,106	109,754	133,217
Tax rate	34	34	35	34	34
Profit after tax	122,962	145,496	174,867	209,299	254,042

Balance Sheet

Y/E Year End (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity	5,056	5,125	5,190	5,399	5,399
Reserves	721,721	889,498	1,057,760	1,457,407	1,662,205
Net worth	726,778	894,624	1,062,950	1,462,806	1,667,604
Deposits	5,464,242	6,436,397	7,887,706	9,197,359	10,953,614
Borrowings	530,185	740,289	1,231,050	1,342,130	1,449,941
Total liabilities	7,088,456	8,638,402	10,639,343	12,446,632	14,513,165
Cash and bank	300,583	378,969	1,046,705	687,191	293,257
Investments	1,638,858	2,144,633	2,422,002	2,939,211	3,475,205
Loans	4,645,940	5,545,682	6,583,331	8,145,843	10,146,280
Others	381,038	422,298	368,787	406,310	458,792
Total assets	7,088,456	8,638,402	10,639,343	12,446,632	14,513,165

Key Ratios (%)

Y/E Year End	FY16	FY17	FY18	FY19E	FY20E
NIM (Calc)	4.7	4.7	4.7	4.7	4.7
RoA	1.9	1.9	1.8	1.8	1.9
RoAE	18.3	17.9	17.9	16.6	16.2
GNPA (%)	0.9	1.1	1.3	1.3	1.4
NNPA (%)	0.3	0.3	0.4	0.4	0.4

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	48.3	56.4	66.8	77.8	93.2
BVPS	285.2	347.0	406.3	543.8	611.6
ABVPS	280.1	339.8	396.4	530.9	595.3
DPS	9.5	11.0	13.0	14.0	15.0

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	40.8	34.9	29.5	25.3	21.1
P/BV	6.9	5.7	4.8	3.6	3.2
P/ABV	7.0	5.8	5.0	3.7	3.3
Dividend Yield (%)	0.5	0.6	0.7	0.7	0.8

Source: Company, Emkay Research

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
NII	23.2	20.1	21.0	18.9	23.6
PPOP	22.7	20.4	26.8	18.6	21.9
PAT	20.4	18.3	20.2	19.7	21.4
Loans	27.1	19.4	18.7	23.7	24.6

Quarterly (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
NII	97,521	103,143	106,577	108,136	117,634
NIM(%) (Reported)	4.3	4.3	4.3	4.2	4.3
PPOP	78,179	84,513	88,356	86,478	94,800
PAT	41,510	46,426	47,993	46,014	50,057
EPS (Rs)	15.90	17.70	18.30	17.50	18.50

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	21.0	21.0	20.9	20.9	21.4
FIIs	33.9	33.2	33.1	33.4	31.6
DII	11.5	12.1	12.3	11.9	12.3
Public and Others	33.5	33.8	33.8	33.8	34.7

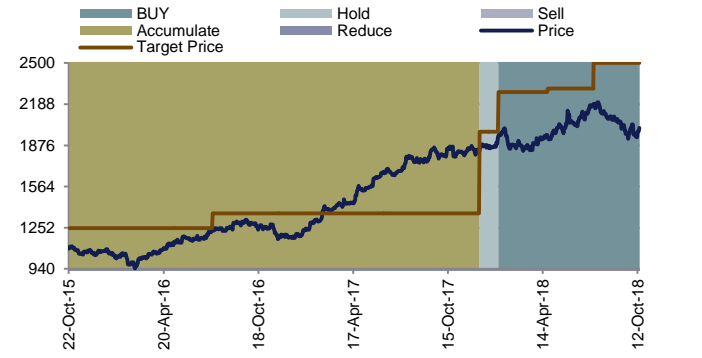
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
20-Jul-18	2,189	2,500	12m	Buy	Jignesh Shial
21-May-18	1,993	2,306	12m	Buy	Ravikant Bhat
23-Apr-18	1,936	2,306	12m	Buy	Ravikant Bhat
19-Jan-18	1,952	2,280	12m	Buy	Ravikant Bhat
14-Dec-17	1,838	1,979	12m	Hold	Ravikant Bhat
22-Jul-16	1,231	1,360	12m	Accumulate	Sohail Halai
22-Apr-16	1,092	1,250	12m	Accumulate	Sohail Halai
27-Jan-16	1,036	1,250	12m	Accumulate	Clyton Richard
11-Jan-16	1,059	1,250	12m	Accumulate	Clyton Richard
24-Nov-15	1,064	1,250	12m	Accumulate	Clyton Richard
2-Nov-15	1,083	1,250	12m	Accumulate	Clyton Richard
23-Oct-15	1,109	1,250	12m	Accumulate	Clyton Richard

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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